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1 You own *The Wizard of Oz* on DVD which is a gift sent to you from your grandmother. You are at home on holiday and you have no money to go out. You decide to watch the DVD for a second time. The opportunity cost of watching this DVD for the second time

Marks: 1

- Choose one answer.
- a. is the value of the alternative use of the time you spend watching the DVD.
  - b. is one-half the time of the DVD, as this is the second time you have watched it.
  - c. is zero because you did not pay for the DVD.
  - d. is zero because you don't have money to go out.
  - e. cannot be calculated, more information is needed.

2 Refer to the information provided in Table 2.1 below to answer the following questions.

Marks: 1

	Adam	Eve
Apples	8	10
Oranges	4	5

Refer to Table 2.1. For Eve, the opportunity cost of 4 oranges is

- Choose one answer.
- a. 2 apples.
  - b. 4 apples.
  - c. 8 apples.
  - d. 1.5 apples.
  - e. 0.5 apples.

3 If Lebanon can produce either 200 bushels of corn or 400 bushels of wheat from a given quantity of resources, and Syria, using the same amount of resources, can produce either 40 bushels of corn or 100 bushels of wheat, which of the following statements is true?

Marks: 1

- Choose one answer.
- a. Lebanon has a comparative advantage in the production of both corn and wheat.
  - b. Syria has a comparative advantage in the production of both corn and wheat.
  - c. Lebanon has a comparative advantage in the production of corn.
  - d. Lebanon has a comparative advantage in the production of wheat.
  - e. Syria has a comparative advantage in the production of corn.

4 If population increases, then \_\_\_\_\_ for diapers will \_\_\_\_\_

Marks: 1

- Choose one answer.
- a. demand; shift to the left.
  - b. demand; shift to the right.
  - c. demand; remain unaffected.
  - d. supply; rotate outward.
  - e. quantity supplied; rotate inward.

5 Demand curves are derived while holding constant

Marks: 1

- Choose one answer.
- a. income, tastes, and the prices of other goods.
  - b. only income and tastes.
  - c. only tastes and the price of other goods.
  - d. income, tastes, and the price of the good.
  - e. demand curves are drawn ceteris paribus, keeping everything fixed, including price of the good.

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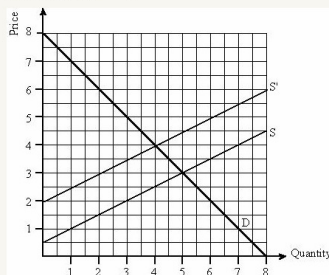
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6

Marks: 1

Below is a diagram that shows a market for agricultural products. A severe drought has shifted the supply curve to the left. Quantity actually supplied decreased by \_\_\_\_\_, consumer surplus changed by \_\_\_\_\_, producer surplus changed by \_\_\_\_\_, and total farm revenues changed by \_\_\_\_\_.



- Choose one answer.
- a. 2, 2, 2, 2.
  - b. 1, 4.5, 1, 1.
  - c. 1, 3, 2, 4.
  - d. 2, 3, 3, 1.
  - e. 1, 4.5, 2.25, 1.

7

Marks: 1

If the equilibrium price of gasoline is \$2.00 per gallon and the government will not allow oil companies to charge more than \$1.00 per gallon of gasoline, which of the following will happen?

- Choose one answer.
- a. Demand must eventually decrease so that the market will come into equilibrium at a price of \$1.00.
  - b. The market will be in equilibrium at a price of \$1.00.
  - c. Supply must eventually increase so that the market will come into equilibrium at a price of \$1.00.
  - d. A nonprice rationing system such as ration coupons must be used to ration the available supply of gasoline.
  - e. none of the above is true, more information is needed to study if there are substitutes or not.

8

Marks: 1

Refer to the information provided in Figure 5.13 below to answer the questions that follow.

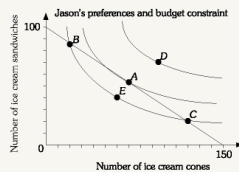


Figure 5.13

Refer to Figure 5.13. The slope of the indifference curve is the ratio of the

- Choose one answer.
- a. marginal utility of ice cream sandwiches to the marginal utility of ice cream cones.
  - b. marginal utility of ice cream cones to the marginal utility of ice cream sandwiches.
  - c. total utility of ice cream cones to the total utility of ice cream sandwiches.
  - d. total utility of ice cream sandwiches to the total utility of ice cream cones.
  - e. none of the above.

9

Marks: 1

Assuming that leisure is a normal good, if an individual's labor supply curve is backward bending, then the

- Choose one answer.
- a. income effect outweighs the substitution effect at higher wages.
  - b. income effect is zero.
  - c. income effect and the substitution effects are equal.
  - d. substitution effect outweighs the income effect at higher wages.
  - e. workers will always increase leisure regardless of their wages.

10

Marks: 1

Use the information provided in Table 6.2 below to answer the questions that follow.

Technology	Units of Capital	Number of Employees
A	10	8
B	12	12
C	8	20
D	6	24

Refer to Table 6.2. If the hourly wage rate is \$10 and the hourly price of capital is \$50, which production technology should be selected?

- Choose one answer.
- a. A
  - b. B
  - c. C
  - d. D
  - e. B or C

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11 Refer to the information provided in Figure 6.10 below to answer the questions that follow.

Marks: 1

Figure 6.10

Refer to Figure 6.10. The firm is currently along isocost CE. If the price of capital is \$30, then the price of labor is

Choose one answer.

- a. \$80.
- b. \$20.
- c. \$4.
- d. indeterminate from this information.
- e. \$0.67

12 Economic costs

Marks: 1

Choose one answer.

- a. are the opportunity cost of each factor of production minus any interest charges paid on borrowed funds.
- b. are equal to total revenue minus economic profit.
- c. include both a normal rate of return on investment and the opportunity cost of each factor of production.
- d. are equal to the direct costs of hiring all factors of production.
- e. both B and C are true.

13 Refer to the information provided in Table 7.2 below to answer the questions that follow.

Marks: 1

Number of Earrings (pairs)	TVC	MC	AVC	TFC	TC	AFC	ATC
0					100		
1		50					
2							95
3			46.67				
4					300		
5	270						

Refer to Table 7.2. If Sherry produces four pairs of earrings, her average fixed costs are

Choose one answer.

- a. \$25.
- b. \$20.
- c. \$4.
- d. \$100.
- e. \$75.

14 Refer to the information provided in Table 7.2 below to answer the questions that follow.

Marks: 1

Number of Earrings (pairs)	TVC	MC	AVC	TFC	TC	AFC	ATC
0					100		
1		50					
2							95
3			46.67				
4					300		
5	270						

Refer to Table 7.2. If Sherry produces one pair of earrings, her total variable costs are

Choose one answer.

- a. \$150.
- b. \$100.
- c. \$50.
- d. \$50.
- e. indeterminate from this information.

15 Refer to the information provided in Table 7.2 below to answer the questions that follow.

Marks: 1

Number of Earrings (pairs)	TVC	MC	AVC	TFC	TC	AFC	ATC
0					100		
1		50					
2							95
3			46.67				
4					300		
5	270						

Refer to Table 7.2. Assume that Sherry's Earrings is producing in a perfectly competitive market and the market price for a pair of earrings is \$80. To maximize profits Sherry should produce \_\_\_\_\_ earrings.

Choose one answer.

- a. three pairs
- b. five pairs
- c. four pairs
- d. two pairs
- e. one pair.

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16 # Refer to the data provided in Table 8.1 below to answer the questions that follow.

Marks: 1

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20		70
2	50	30	80			
3	50	45	95			
4	50	62	112			
5	50	90	140			
6	50	132	182			
7	50	186	236	54	26.57	33.71

Refer to Table 8.1. The market price is \$42 and this firm is producing four units of output. Which of the following would you recommend to this firm?

Choose one answer:

- a. Increase output to seven units so that price is less than marginal cost.
- b. Reduce price to \$17, so that marginal cost will equal marginal revenue at 4 units of output.
- c. Continue producing four units of output, because the firm is able to make an economic profit.
- d. Increase output to six units, so that marginal cost equals marginal revenue.
- e. I cannot recommend anything to this firm because the firm is operating in the short run.

17 # Which of the following is an example of economies of scale?

Marks: 1

Choose one answer:

- a. To attract firms to locate in its state, the state government reduced the tax rate that businesses must pay on its profits, thus lowering the costs to firms who locate in the state.
- b. A firm increases in size and is therefore able to lower its health insurance costs because as the size of the group insured increases, the premium per person decreases substantially.
- c. As the computer industry has expanded, the number of professionally trained computer programmers has also increased, which has caused the salaries of computer programmers to increase.
- d. As the demand for calculators increased, the price of calculators actually fell.
- e. As the firm increases the number of machines, the average cost decreases.

18 # Refer to the information provided in Figure 8.1 below to answer the questions that follow.

Marks: 1

Figure 8.1

Refer to Figure 8.1. This farmer's fixed costs are

Choose one answer:

- a. \$24.
- b. \$45.
- c. \$4.
- d. \$18.
- e. \$12.

19 # Refer to the information provided in Figure 9.3 below to answer the questions that follow.

Marks: 1

Figure 9.3

Refer to Figure 9.3. The market wage is initially  $W_0$  and the firm is initially at Point A. Labor supply decreases from  $S_0$  to  $S_1$ , if the firm does not change the amount of capital it employs, the firm will move to Point \_\_\_\_\_ to maximize profits.

Choose one answer:

- a. C
- b. B
- c. E
- d. F
- e. C or E

20 # Liu's Potato Chips is a perfectly competitive firm currently employing 30 workers. The marginal revenue product of the 30th worker is \$7.00 per hour. The wage rate is \$8.00 per hour. To increase profits, this firm should

Marks: 1

Choose one answer:

- a. decrease employment until the  $MRP$  of labor equals \$8.00.
- b. increase the price of potato chips so that the marginal revenue product increases to \$8.00 per hour.
- c. continue hiring 30 workers because the firm earns a surplus of \$1.00 on each worker hired.
- d. increase employment until the  $MRP$  of labor equals \$8.00.

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21 Marks: 1

The Package Store hires workers to wrap packages. The store sells this service for \$5. The marginal revenue product of this store's fifth worker is \$50. The marginal product of the fifth worker is

Choose one answer.  a. 10 packages.  
 b. indeterminate from this information.  
 c. 0.01 package.  
 d. 1 package.  
 e. 250 packages.

22 Marks: 1

Custom Made Clothing, a small clothing manufacturer, can use either a capital-intensive or labor-intensive technology to produce a product. If the price of capital increases and the price of labor remains constant, this firm most likely would

Choose one answer.  a. switch to the labor-intensive technology.  
 b. try to increase the productivity of capital.  
 c. leave the industry.  
 d. continue to use the capital-intensive technology and reduce the amount of output produced.  
 e. more information about the production technology is needed.

23 Marks: 1

The Exclusive Gift Company has a monopoly over the sale of gold hula hoops. This company is currently selling 50 gold hula hoops at a price of \$5,000 each. Total costs for the company are \$300,000 of which fixed costs are \$100,000. You are hired as an economic consultant to this company. You should advise this monopolist to

Choose one answer.  a. produce in the short run and expand capacity in the long run.  
 b. produce in the short run but exit the industry in the long run if conditions do not change.  
 c. shut down in the short run but expand capacity in the long run if conditions do not change.  
 d. shut down in the short run and exit the industry in the long run.  
 e. produce in the short run but increase price in the long run.

24 Marks: 1

Refer to the information provided in Figure 12.8 below to answer the questions that follow.

Figure 12.8

Refer to Figure 12.8. If the government regulates Armstrong Cable so they can earn only a normal return, the price would be set at

Choose one answer.  a. \$16.00.  
 b. \$12.50.  
 c. \$13.00.  
 d. \$12.00.  
 e. \$15.00.

25 Marks: 1

A monopolist will not produce

Choose one answer.  a. in the inelastic portion of its demand curve, where marginal revenue is negative.  
 b. if price is less than average total cost but greater than average variable cost.  
 c. if marginal revenue is declining.  
 d. if price is greater than average total cost.  
 e. if profits are negative.

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26 Refer to the information provided in Figure 12.8 below to answer the questions that follow.

Marks: 1

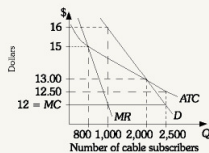


Figure 12.8

Refer to Figure 12.8. The type of industry pictured is a

- Choose one answer.
- a. patent monopoly.
  - b. increasing cost industry.
  - c. natural monopoly.
  - d. profit maximizing monopoly.
  - e. none of the above.

27 Perfect price discrimination

Marks: 1

- Choose one answer.
- a. can eliminate the deadweight loss to society of a monopoly.
  - b. is an attempt by monopolists to capture consumer surplus as profit.
  - c. is charging different prices to different buyers.
  - d. do all of the above.
  - e. B and C are true.

28 When the demand curve is a downward sloping straight line, the slope of the marginal revenue curve is

Marks: 1

- Choose one answer.
- a. the same as the slope of the demand curve.
  - b. always equal to one.
  - c. twice as steep as the demand curve.
  - d. half as steep as the demand curve.
  - e. positive or negative depending on quantity produced.

29 Refer to the information provided in Table 13.2 below to answer the questions that follow.

Marks: 1

		Table 13.2 B's strategy	
		Advertise	Don't Advertise
A's Strategy	Advertise	A's profit \$100 million B's profit \$100 million	A's profit \$200 million B's profit \$50 million
	Don't Advertise	A's profit \$50 million B's profit \$200 million	A's profit \$75 million B's profit \$75 million

Refer to Table 13.2. Firm A's dominant strategy is

- Choose one answer.
- a. to not advertise.
  - b. dependent on what Firm B does.
  - c. to advertise.
  - d. indeterminate from this information, as no information is provided on Firm A's risk preference.

30 Refer to the information provided in Figure 13.7 below to answer the questions that follow.

Marks: 1

Demand and cost conditions for the Chewing Gum Industry

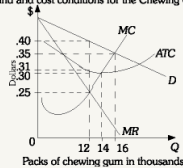


Figure 13.7

Refer to Figure 13.7. Firms have formed a cartel. If the cartel is maximizing profits, the cartel's profits are

- Choose one answer.
- a. \$1,000.
  - b. \$1,800.
  - c. \$0.
  - d. indeterminate from this information.
  - e. \$1,200.

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31 ❌ Refer to the information provided in Figure 13.1 below to answer the questions that follow. Below are cost curves for Dom's Barber Shop, a monopolistically competitive firm

Marks: 1

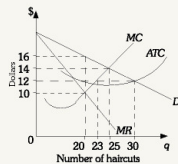


Figure 13.1

Refer to Figure 13.1. If Dom's Barber Shop is maximizing profit, it is earning a profit of

- Choose one answer.
- a. \$350.
  - b. \$80.
  - c. \$120.
  - d. \$0.
  - e. \$60.

32 ❌ The Specialty Cake Store, a monopolistically competitive firm is producing 200 decorated cakes per day and selling each cake for \$12. At that production level ATC is \$25, AVC is \$15, AFC is \$10, and both MR and MC are \$8. This firm should

Marks: 1

- Choose one answer.
- a. increase output to the point where price equals marginal cost.
  - b. decrease output to the point where marginal cost equals average cost.
  - c. produce zero cakes and just pay fixed costs.
  - d. continue to produce 200 cakes, as price is greater than AFC.
  - e. increase price to at least \$15 to cover all variable costs.

33 ❌ Refer to the information provided in Figure 13.6 below to answer the questions that follow.

Marks: 1

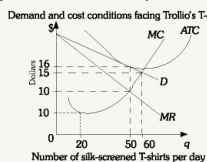


Figure 13.6

Refer to Figure 13.6. If Trollio's T-shirts is in equilibrium it is producing \_\_\_\_\_ silk-screened T-shirts and selling each T-shirt at a price of \_\_\_\_\_.

- Choose one answer.
- a. 60, \$15
  - b. 20, \$5
  - c. 50, \$16
  - d. 50, \$10
  - e. 60, \$16

34 ❌ A monopolistically competitive firm that is incurring a loss will shut down if

Marks: 1

- Choose one answer.
- a. price is less than marginal cost.
  - b. price is less than average fixed cost.
  - c. price is less than average variable cost.
  - d. marginal revenue is less than marginal cost.
  - e. price is less than marginal revenue.

35 ❌ The game described below has:

Marks: 1

		BANDITA									
		Swerve		Not Swerve							
DESEALADO	Swerve	<table border="1"> <tr><td>Desperado Payoff:</td><td>Bandita Payoff:</td></tr> <tr><td>0</td><td>0</td></tr> </table>	Desperado Payoff:	Bandita Payoff:	0	0	<table border="1"> <tr><td>Desperado Payoff:</td><td>Bandita Payoff:</td></tr> <tr><td>0</td><td>10</td></tr> </table>	Desperado Payoff:	Bandita Payoff:	0	10
	Desperado Payoff:	Bandita Payoff:									
0	0										
Desperado Payoff:	Bandita Payoff:										
0	10										
Not Swerve	<table border="1"> <tr><td>Desperado Payoff:</td><td>Bandita Payoff:</td></tr> <tr><td>10</td><td>0</td></tr> </table>	Desperado Payoff:	Bandita Payoff:	10	0	<table border="1"> <tr><td>Desperado Payoff:</td><td>Bandita Payoff:</td></tr> <tr><td>-5</td><td>-100</td></tr> </table>	Desperado Payoff:	Bandita Payoff:	-5	-100	
Desperado Payoff:	Bandita Payoff:										
10	0										
Desperado Payoff:	Bandita Payoff:										
-5	-100										

- Choose one answer.
- a. Only one Nash equilibrium.
  - b. No Nash equilibrium.
  - c. Two Nash equilibria, which are (Swerve, Swerve) and (Not Swerve, Not Swerve)
  - d. Two Nash equilibria, which are (Swerve, Not Swerve) and (Not Swerve, Swerve)
  - e. None of the above.

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36 #  
Marks: 1

For the game described below:

		BANDITA			
		Swerve		Not Swerve	
		Desperado Payoff:	Bandita Payoff:	Desperado Payoff:	Bandita Payoff:
DESPERADO	Swerve	0	0	0	10
	Not Swerve	10	0	-5	-100

Choose one answer.  a. For Desperado and Bandita "Not Swerve" dominates "Swerve."  
 b. For Desperado and Bandita "Swerve" dominates "Not Swerve."  
 c. For Desperado "Not Swerve" is dominant; for Bandita "Swerve" is dominant.  
 d. For Desperado "Swerve" is dominant; for Bandita "Not Swerve" is dominant.  
 e. None of the above.

37 #  
Marks: 1

A firm operating in a perfectly competitive environment produces the profit maximizing quantity of  $Q=50$ . The marginal cost of  $Q=50$  is  $MC=10$ . The last worker hired by the firm has a marginal product of  $MP=5$ . What's the wage rate paid to the worker?

Choose one answer.  a. 5  
 b. 50  
 c. 500  
 d. 10  
 e. 2

38 #  
Marks: 1

For the game described below, "Stadium" will be the dominant strategy for both players if:

		SAMUEL			
		Opera		Stadium	
		Yasmine Payoff:	Samuel Payoff:	Yasmine Payoff:	Samuel Payoff:
YASMINE	Opera	100	100	S	T
	Stadium	T	S	0	0

Choose one answer.  a.  $S + T > 100$   
 b.  $T > 2S$   
 c.  $S < 0$  and  $T > 100$   
 d.  $S = 100$   
 e. None of the above.

39 #  
Marks: 1

A monopolistically competitive firm in a long run equilibrium produces  $Q=2$  at  $ATC=10$ . Given the demand function  $P=100-Q$ , how many firms are in the market?

Choose one answer.  a. 20  
 b. 40  
 c. 45  
 d. 50  
 e. 90

40 #  
Marks: 1

A firm operating in a perfectly competitive environment produces the profit maximizing quantity of  $Q=50$ . The marginal cost of  $Q=50$  is  $MC=10$ . The last worker hired by the firm has a marginal product of  $MP=5$ . How many workers does the firm hire?

Choose one answer.  a. 5  
 b. 50  
 c. 500  
 d. 10  
 e. Cannot be answered without additional information.

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